

Recording Closing Entries



Journalize and post closing entries for a service business organized as a proprietorship.

© 2014 Cengage Learning. All Rights Reserved.

Learning Objective

1

Need for Permanent and Temporary Accounts

- Accounts used to accumulate information from one fiscal period to the next are called **permanent accounts**.
 - Permanent accounts are also referred to as *real accounts*.
- Accounts used to accumulate information until it is transferred to the owner's capital account are called **temporary accounts**.
 - Temporary accounts are also referred to as *nominal accounts*.

© 2014 Cengage Learning. All Rights Reserved.

SLIDE 2

2

Need for Closing Temporary Accounts

- Journal entries used to prepare temporary accounts for a new fiscal period are called **closing entries**.
- The temporary account balances must be reduced to zero at the end of each fiscal period.

© 2014 Cengage Learning. All Rights Reserved.

SLIDE 3

3

Need for the Income Summary Account

- When revenue is greater than total expenses, resulting in a net income, the Income Summary account has a credit balance, as shown in the T account.

Income Summary	
Debit	Credit
Total expenses	Revenue (greater than expenses) (Credit balance is the net income.)

- When total expenses are greater than revenue, resulting in a net loss, the Income Summary account has a debit balance, as shown in the T account.

Income Summary	
Debit	Credit
Total expenses (greater than revenue) (Debit balance is the net loss.)	Revenue

© 2014 Cengage Learning. All Rights Reserved.

SLIDE 4

4

Closing Entry for an Income Statement Account with a Credit Balance

Sales		
Closing	5,820.00	Bal. (New Bal. 0.00)
<hr/>		
Income Summary		
		Closing (revenue) 5,820.00

ACCOUNT TITLE	5	6	INCOME STATEMENT
	DEBIT	CREDIT	
12 Sales	5 8 2 0 0 0		

(Debit to close)

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
6 31	<i>Closing Entries</i>						
7 Sales				5 8 2 0 0 0			
8 Income Summary					5 8 2 0 0 0		

Heading **1** Date **2** **3** Debit **4** Credit

© 2014 Cengage Learning. All Rights Reserved.

SLIDE 5

5

Closing Entry for Income Statement Accounts with Debit Balances

ACCOUNT TITLE			5	6	INCOME STATEMENT
	DEBIT	CREDIT			
13 Advertising Expense	3 9 7 0 0				
14 Cash Short and Over	1 0 0				
15 Communications Expense	8 0 0 0				
16 Equipment Rental Expense	1 4 5 5 0 0				
17 Insurance Expense	1 5 0 0 0				
18 Miscellaneous Expense	4 5 0 0				
19 Supplies Expense	5 3 0 0 0				

(Credit to close)

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
9 31	<i>Income Summary</i>			2 6 5 8 0 0			
10	Advertising Expense				3 9 7 0 0		
11	Cash Short and Over				1 0 0		
12	Communications Expense				8 0 0 0		
13	Equipment Rental Expense				1 4 5 5 0 0		
14	Insurance Expense				1 5 0 0 0		
15	Miscellaneous Expense				4 5 0 0		
16	Supplies Expense				5 3 0 0 0		

Debit Amount Income Summary Date Credit

© 2014 Cengage Learning. All Rights Reserved.

SLIDE 6

6

Closing Entry to Record Net Income or Loss and Close the Income Summary Account

© 2014 Cengage Learning. All Rights Reserved.

SLIDE 7

7

Closing Entry for the Owner's Drawing Account

© 2014 Cengage Learning. All Rights Reserved.

SLIDE 8

8

Audit Your Understanding

1. What do the ending balances of permanent accounts for one fiscal period represent at the beginning of the next fiscal period?

ANSWER

Beginning balances

© 2014 Cengage Learning. All Rights Reserved.

SLIDE 9

9

Audit Your Understanding

2. What do the balances of temporary accounts show?

ANSWER

Changes in the owner's capital account for a single fiscal period

© 2014 Cengage Learning. All Rights Reserved.

SLIDE 10

10



Audit Your Understanding

3. List the four closing entries.

ANSWER

1. An entry to close income statement accounts with credit balances.
2. An entry to close income statement accounts with debit balances.
3. An entry to record net income or net loss and close the Income Summary account.
4. An entry to close the owner's drawing account.